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Message Text

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---------- 070078
R 260441Z APR 74
FM SECSTATE WASHDC
TO AMEMBASSY COLOMBO

C O N F I D E N T I A L STATE 085385

EXDIS

E.O. 11652: GDS
TAGS EAID EFIN CE
REF COLOMBO 1083

1. WE ARE NOT IN POSITION TO BE VERY FORTHCOMING ON GSL REQUEST FOR HELP ON SHORT TERM CREDITS. YOU ARE COMPLETELY CORRECT IN LINE TAKEN WITH GUNASEKERA (PARA 4, COLOMBO 1083) RE ABSENCE LEGISLATIVE AUTHORITY FOR BUDGET SUPPORT TYPE CREDIT, A TYPE OF AID WHICH IN ANY CASE APPEARS NEITHER FEASIBLE NOR POLITICALLY DESIRABLE FOR SRI LANKA.

2. WE ALSO DO NOT WISH MAKE SPECIAL PITCH TO US BANKS RE SRI LANKA. IN ADDITION TO OUR GENERAL RELUCTANCE TO GET SO INVOLVED THIS SEEMS PARTICULARLY BAD TIME. WE UNDERSTAND CEYLONESE EMBASSY WAS TURNED DOWN BY EX-IM BANK ON INFORMAL APPROACH APRIL 24 FOR ONE YEAR MORATORIUM ON PRINCIPLE PAYMENTS TO INTERCONTINENTAL HOTEL LOAN -- ABOUT DOLS 250,000. IT DIFFICULT FOR US TO MAKE ARGUMENTS FOR COMMERCIAL BANK CREDITS WHEN EX-IM WHICH HAS CLOSE PROFESSIONAL DEALING WITH US BANKS HAS
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RECENT EVIDENCE SRI LANKA FINANCIAL STRAITS.

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3. WITH REGARD TO GSL APPROACH TO YOU, GERMANS AND CANADIANS, WE WONDER IF CEYLONESE ARE GETTING OVER-EXTENDED IN SHORT-TERM CREDITS IN SAME WAY THEY DID IN 1970. WE NOTE THAT IMF IS PARTICULARLY CONCERNED ABOUT INCREASE IN SHORT-TERM CREDIT ALTHOUGH IT REALIZES SOME RISE IN 1974 IS INEVITABLE. IMF STAFF REPORT TO BE PRESENTED FOR APRIL 29 IMF CONSIDERATION OF SDR 24.5 MILLION STANDBY REQUEST POINTS OUT NEED FOR CEYLONESE RESTRAINT IN SHORT-TERM BORROWING. REPORT CITES CEYLONESE AUTHORITIES' PLAN TO LIMIT SHORT-TERM IMPORT CREDITS TO INCREASE OF SDR 10 MILLION OVER DEC. 73 LEVELS. SHORT-TERM LIABILITIES OF BANKING SYSTEM ARE TO BE LIMITED TO MAXIMUM SDR 22 MILLION OVER DEC, 1973 UP TO AUGUST 1974; AFTER AUGUST OUTSTANDING CREDITS ARE TO BE REDUCED TO LEVEL ONLY SDR 10 MILLION ABOVE DEC. 73. WE ARE UNCLEAR HOW MUCH ADDED SHORT TERM BORROWING BURDEN IS ENVISAGED BY CEYLONESE IN THEIR REQUEST TO US AND OTHERS.

4. IN RESPONSE TO GUNASEKERA SUGGES YOU MAKE FOLLOWING POINTS:

A. CONVEY DEPARTMENT'S CONFIRMATION OF LINE YOU TOOK IN COLOMBO 1083, PARA 3.

B. SAY THAT WHILE IT WOULD BE INAPPROPRIATE FOR US TO INTERVENE WITH PRIVATE BANKS -- AND, WE THINK, NOT USEFUL -- WE WILL CONTINUE TO RESPOND TO BANK QUERIES TAKING OUR USUAL LINE THAT:

(1) US/CEYLONESE POLITICAL RELATIONS ARE QUITE GOOD AND WE ARE CONTINUING IN OUR EFFORTS TO BE HELPFUL ON AID.

(2) THE USG HAS TAKEN COMMERCIAL TYPE CREDIT RISKS IN THE FORM OF DOLS 15 MILLION CCC CREDITS LAST YEAR.

(3) SRI LANKA HAS HAD A GOOD RECORD IN MAKING EFFORTS TO MEET ITS DEBTS DESPITE A STRINGENT FOREIGN EXCHANGE CONFIDENTIAL

SITUATION.

(4) IMF AND IBRD REPORTS THIS YEAR BOTH ARE POSITIVE IN ASSESSING THE EFFORTS SRI LANKA HAS MADE TO RATIONALIZE ITS ECONOMY.

C. THE USG CONTINUES TO BELIEVE THAT IT CAN PROVIDE THE MOST USEFUL ASSISTANCE TO SRI LANKA THROUGH FOOD AND

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OTHER FORMS OF ECONOMIC AID WITHIN CONSTRAINTS OF
RESOURCE AND FINANCIAL AVAILABILITIES.

5. CEYLONESE COUNSELOR DE ALWIS HAS INDICATED AWARENESS
GUNASEKERA DEMARCHE BY ASKING SRI LANKA DESK LEAD-
ING QUESTIONS RE AMBASSADOR'S APPOINTMENTS WITH

SENIOR OFFICIALS AND TOPICS DISCUSSED. WE CONFIRMED,
IN GENERAL TERMS, GUNASEKERA'S APPROACH REFTEL. KISSINGER

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